

Message Text

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ACTION EB-08

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AMEMBASSY LONDON
AMCONSUL LUBUMBASHI
AMEMBASSY LUSAKA
AMEMBASSY OTTAWA
AMEMBASSY PARIS

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TAGS: EMIN, ETRD, FI
SUBJECT: COBALT PRICE INCREASE

REF: A) KINSHASA 10334, B) STATE 236777

1. SUMMARY: EMBASSY OFFICER DISCUSSED FINLAND'S RECENT COBALT PRICE HIKE WITH RAIMO OTTELA, ALES MANAGER OF THE MINING DIVISION OF OUTOKUMPU, FINLAND'S SOLE PRODUCER. OTTELA'S ANALYSIS OF THE WORLD COBALT SITUATION WAS SIMILAR TO SOZACOM OFFICIALS' STATEMENTS REPORTED REF A. HIS KEY POINTS WERE THE LARGE DIFFERENTIAL BETWEEN THE PRODUCER AND FREE MARKET PRICES, RAPIDLY DEPLETING COBALT STOCKS AROUND THE WORLD, AND HIGH DEMAND FOR A SCARCE PRODUCT. OTTELA ASSURED US THAT THE FINNS ARE VERY AWARE
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OF AND APPRECIATIVE THAT U.S. CUSTOMERS PURCHASE 30-50 PERCENT OF OUTOKUMPU'S OUTPUT. END SUMMARY.

2. ECONOMIC OFFICER DISCUSSED WITH RAIMO OTTELA, SALES MANAGER OF OUTOKUMPU'S MINING AND METALLURGY DIVISION, THE FINNS' RECENT DECISION TO RAISE THEIR COBALT PRODUCER PRICE FROM US DOLLARS 12.50 PER POUND TO

DOLLARS 18 PER POUND, AND TO EXPRESS USG CONCERNS PER REFTEL. OUTOKUMPU IS A STATE-OWNED COMPANY AND PRODUCES ALL OF FINLAND'S COBALT. OTTELA EMPHASIZED THE LARGE DIFFERENTIAL BETWEEN THE PRODUCER AND FREE MARKET PRICES FOR COBALT THAT EXISTED BEFORE THE PRICE HIKE. HE OBSERVED THAT THE LEVEL BEFORE THE PRICE HIKE OF US DOLLARS 35 PER POUND ON THE FREE MARKET HADN'T CHANGED MUCH SINCE THE HIKE. ACCORDING TO OTTELA, THE MARKET SITUATION HAS BEEN SUCH THAT DEMAND HAS BEEN OUTRUNNING SUPPLY AND WITH THE RESULT THAT RESERVE STOCKS ARE DEPLETED AND CUSTOMERS UNABLE TO SUBSTITUTE FOR COBALT HAVE SUFFERED THE MOST. OVER THE LAST NINE MONTHS, U.S. VISITORS TO FINLAND LOOKING FOR COBALT SUPPLY CONTRACTS HAVE TRIPLED. THE FINNS JUSTIFY THE PRICE INCREASE AS NECESSARY TO CORRECT THE SHORT-RUN MARKET SITUATION BY ENCOURAGING MARGINAL USERS TO SEEK SUBSTITUTES AND ENCOURAGE MARGINAL PRODUCTION OF COBALT.

3. IN LIGHT OF SEEMINGLY "FRANTIC" DEMAND AND THE PROJECTION THAT ONLY AROUND TEN YEARS OF ASSURED PRODUCTION AT THE 1,000 MT ANNUAL LEVEL REMAIN, OUTOKUMPU RAISED ITS PRICE TO A LEVEL THAT IT PERCEIVED AS ROUGHLY EQUIVALENT WITH DEMAND LEVELS. FINLAND PRODUCES ONLY 900 - 1,000 METRIC TONS A YEAR AT PRESENT, FIVE PERCENT OF WORLD PRODUCTION, BUT INTENDS TO EXPAND MARGINAL OPERATIONS TO PROVIDE AN ADDITIONAL 300 LIMITED OFFICIAL USE

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METRIC TONS. FULLY 100 PERCENT OF PRODUCTION IS EXPORTED; 30-50 PERCENT OF THAT GOES TO U.S. CUSTOMERS, A DEVELOPMENT THAT STARTED IN THE EARLY 70'S.

4. COMMENT: THE FINNS ARE UNWILLING TO COME RIGHT OUT AND SAY THAT THEY RAISED THE PRICE BECAUSE THEY THINK THAT THEY CAN GET AWAY WITH IT. THEY ARE NOT CONVINCED THAT LAST MAY'S PROBLEMS IN AFRICA WILL NOT RETURN AND THEY ARE VERY CONCERNED THAT THEIR COBALT, AND OTHER METAL ORES RESOURCES, WILL SOON BE DEPLETED. ALTHOUGH OUTOKUMPU IS A STATE-OWNED COMPANY, IT HAS A GREAT DEAL OF FREEDOM OF ACTION AND IT IS HIGHLY UNLIKELY THAT THE FINNISH GOVERNMENT WOULD SEEK TO REVERSE OR CONTROL PRICING DECISIONS. RIDGWAY

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